

Kossan Rubber Industries Bhd

(7153 | KRI MK) Health Care| Health Care Equipment & Services

Maintain NEUTRAL

Earnings driven by higher demand for gloves

Revised Target Price: RM9.00

(Previously RM4.64)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings within expectations**
- **Higher earnings in 1QFY20 driven by stronger demand for gloves**
- **Higher ASP due to strong demand for gloves**
- **Earnings estimates revised upwards**
- **Maintain NEUTRAL with a revised TP of RM9.00**

1QFY20 earnings within expectations. Kossan's 1QFY20 core net earnings of RM60.2m came in within expectations, making up 22.3% and 21.6% of our and consensus full year estimates respectively. Note that we have excluded mainly forex gain and loss on derivatives in our core net income calculation.

Higher earnings in 1QFY20 driven by higher demand for gloves.

1QFY20 core net earnings was higher at RM60.2m (+3.7%), in line with higher topline of RM611.5m (+8.9%yoy). The higher earnings were driven by higher average selling price (ASP) (+~2%yoy) of gloves and higher sales volume (+7.4%yoy) due to Covid-19 pandemic. Besides, lower raw material prices have also support earnings growth in 1QFY20. Note that cost of Nitrile Butadiene Rubber (NBR) fell by >10% while cost of natural rubber latex fell by >5%.

Higher ASP due to strong demand for gloves.

ASP of gloves is expected to increase significantly in 2QFY20 as the surge in demand for gloves beginning April has caused shortage of gloves. Besides, earnings growth of Kossan will be supported by the higher production volumes in tandem with its expansion plan. Its Plant 19 has so far commissioned 6 production lines beginning January while all 10 lines are expected to be fully commissioned by June 2020. Hence, we are revising our FY20/21/22F earnings forecasts by +37.5%/+20.5%/+11.7% to mainly factor in the higher ASP and higher sales volume.

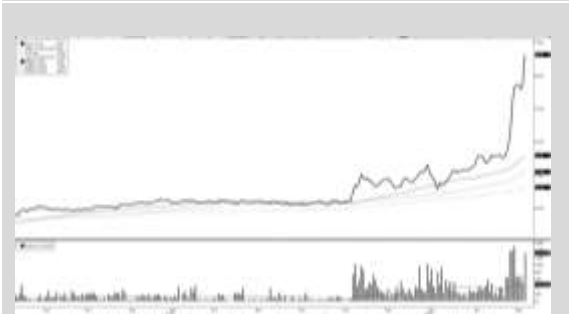
Maintain Neutral with a revised TP of RM9.00.

Post upward revision in earnings, our TP for Kossan is revised to RM9.00 (previously RM4.64), pegging our FY20F EPS of 29.1sen to PER of 31x which is close to +2SD of its 3-year mean. We value Kossan at +2SD of its mean PER due to the strong demand outlook for gloves in the medium term. Nevertheless, we maintain our Neutral call on Kossan as we view the positive earnings prospect has been priced in.

RETURN STATISTICS

Price @ 21 st May 2020 (RM)	8.63
Expected share price return (%)	4.3
Expected dividend yield (%)	1.0
Expected total return (%)	5.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	60.1	52.4
3 months	68.2	95.7
12 months	128.9	152.8

KEY STATISTICS

FBM KLCI	1452.11
Syariah compliant	Yes
Issue shares (m)	1278.94
Estimated free float (%)	37.82
Market Capitalisation (RM'm)	11037.22
52-wk price range	RM3.71 - RM8.65
Beta vs FBM KLCI (x)	0.51
Monthly velocity (%)	0.00
Monthly volatility (%)	15.35
3-mth average daily volume (m)	4.65
3-mth average daily value (RM'm)	26.78
Top Shareholders (%)	
Kossan Holdings M Sdn Bhd	49.59
EPF	5.28
KWAP	2.20

Analyst(s)

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INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2018	FY2019	FY2020F	FY2021F	FY2022F
Revenue	2144.2	2221.6	3008.3	3171.3	3325.1
Operating Profit	264.7	290.6	475.7	492.1	504.0
PBT	250.2	280.1	460.7	476.3	487.3
PATANCI	199.8	224.8	371.7	384.2	393.0
Operating Profit margin (%)	12.3	13.1	15.8	15.5	15.2
PBT margin (%)	11.7	12.6	15.3	15.0	14.7
PATAMI margin (%)	9.3	10.1	12.4	12.1	11.8
EPS (sen)	15.8	17.6	29.1	30.0	30.7
EPS Growth (%)	10.7	11.2	65.4	3.4	2.3
PER (x)	24.2	49.1	29.7	28.7	28.1
Dividend per share (sen)	6.0	7.0	9.0	10.0	10.0
Dividend yield (%)	1.4	0.8	1.0	1.2	1.2

Source: Company, MIDFR

Table 1: Kossan's quarterly earnings review

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY20	%YoY	%QoQ	FY20	%YoY
Revenue	611.5	8.9%	5.7%	611.5	8.9%
Operating expenses	-527.4	9.3%	4.5%	-527.4	9.3%
Profit from operations	86.3	8.2%	15.8%	86.3	8.2%
Finance costs	-3.7	-19.5%	68.9%	-3.7	-19.5%
Profit before tax	82.5	9.9%	14.2%	82.5	9.9%
Profit after tax	65.3	9.7%	6.0%	65.3	9.7%
Non-controlling interest	0.5	-37.7%	-18.6%	0.5	-37.7%
PATANCI	64.8	10.4%	6.2%	64.8	10.4%
Core PATANCI	60.2	3.7%	-2.2%	60.2	3.7%
Basic EPS (sen)	5.1	10.4%	6.3%	5.1	10.4%
Core EPS (sen)	4.7	3.7%	-2.2%	4.7	3.7%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.